

CHELSEA RECREATION COUNCIL

Chelsea, Michigan

FINANCIAL STATEMENTS

August 31, 2008

CHELSEA RECREATION COUNCIL

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**BERTHIAUME
& COMPANY**

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INDEPENDENT AUDITORS' REPORT

Council Members
Chelsea Recreation Council
Chelsea, Michigan

We have audited the accompanying financial statements of the business-type activities as of and for the year ended August 31, 2008, which comprises the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Chelsea Recreation Council management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Chelsea Recreation Council, as of August 31, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chelsea Recreation Council's, basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Berthiaume & Co.

Saginaw, Michigan
November 18, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHELSEA RECREATION COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Chelsea Recreation Council's financial performance provides an overview of the Council's financial activities for the fiscal year ended August 31, 2008. Please read it in conjunction with the Council's financial statements.

Chelsea Recreation Council as a Whole

The following table shows, in condensed format, the net assets as of the current date, for the year ended August 31, 2008 and 2007.

Statement of Net Assets

	2008	2007
Assets:		
Current assets	\$ 79,129	\$ 80,477
Noncurrent assets	1,391	2,152
Total assets	80,520	82,629
Current liabilities	7,866	7,905
Net Assets:		
Invested in capital assets	1,391	2,152
Unrestricted	71,263	72,572
Total net assets	\$ 72,654	\$ 74,724

Statement of Activities

Revenues:		
Program revenues	\$ 273,988	\$ 250,584
Operating grants and contributions	11,000	16,700
General revenues	16,233	14,266
Total revenues	301,221	281,550
Expenses:		
Recreation program expenses	303,291	267,762
Increase (decrease) in net assets	(2,070)	13,788
Net assets, beginning of year	74,724	60,936
Total net assets	\$ 72,654	\$ 74,724

For the current year, the Council's combined net assets decreased by approximately \$2,000 compared to an increase of about \$13,000 in the prior year. Program fees revenue increased by about \$23,000; however, expenses, overall, also increased by about \$36,000. There was an overall increase in participants during the current year. Rates have not been significantly increased. Grant revenues decreased by about \$5,000.

Some of the significant items this year are:

There were two (2) programs that significantly increased their enrollment: Aquatics Club and Camp Cabogi. There was an overall significant increase in scholarships awarded to those in need in both programs.

CHELSEA RECREATION COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Economic Factors

The Chelsea Recreation Council's budget for next year calls for minor changes. No significant economic factors have been identified.

Contacting the Council's Management

This financial report is intended to provide our citizens, customers, and investors with a general overview of the Council's finances and to show the Council's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Council's office at 510 E. Washington St. Chelsea, MI 48118.

BASIC FINANCIAL STATEMENTS

CHELSEA RECREATION COUNCIL

STATEMENT OF NET ASSETS

August 31, 2008

	Business- type Activities
Assets:	
Cash and cash equivalents	\$ 58,003
Receivables	2,475
Inventory	9,535
Prepaid expenses	9,116
Capital assets:	
Depreciable capital assets, net	<u>1,391</u>
Total assets	<u>80,520</u>
Liabilities:	
Accounts payable	<u>7,866</u>
Total liabilities	<u>7,866</u>
Net Assets:	
Investment in capital assets	1,391
Unrestricted	<u>71,263</u>
Total net assets	<u>\$ 72,654</u>

The accompanying notes are an integral part of these financial statements.

CHELSEA RECREATION COUNCIL

STATEMENT OF ACTIVITIES

Year Ended August 31, 2008

	Business- type Activities
Expenses:	
Recreation programs	<u>\$ 303,291</u>
Program revenues:	
Charges for services	<u>273,988</u>
Operating income (loss)	<u>(29,303)</u>
Operating grants and contributions:	
United Way	3,000
City of Chelsea	<u>8,000</u>
	<u>11,000</u>
General revenues:	
Interest	1,417
Sponsorships	8,165
Royalty	2,650
Other	<u>4,001</u>
	<u>16,233</u>
Change in net assets, net (expense) revenue	(2,070)
Net assets, beginning of year	<u>74,724</u>
Net assets, end of year	<u><u>\$ 72,654</u></u>

The accompanying notes are an integral part of these financial statements.

CHELSEA RECREATION COUNCIL

STATEMENT OF CASH FLOWS

Year Ended August 31, 2008

	Recreation Programs
Cash flows from operating activities:	
Cash received from program participants	\$ 268,541
Cash payments to employees	(131,372)
Cash payments for goods, services and other	(176,979)
Net cash provided (used) by operating activities	<u>(39,810)</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>-</u>
Cash flows from non-capital financing activities:	
Contributions and grants	11,000
Sponsorships	8,165
Royalty	2,650
Other	4,001
Net cash provided (used) by non-capital financing activities	<u>25,816</u>
Cash flows from investment activities:	
Interest	<u>1,417</u>
Net increase (decrease) in cash and cash equivalents	(12,577)
Cash and cash equivalents, beginning of year	<u>70,580</u>
Cash and cash equivalents, end of year	<u><u>\$ 58,003</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	\$ (29,303)
Adjustments:	
Depreciation	761
Change in assets and liabilities:	
Accounts receivable	(1,675)
Inventory	(438)
Prepaid expenses	(9,116)
Accounts payable	3,733
Deferred revenue	(3,772)
Net cash provided (used) by operating activities	<u><u>\$ (39,810)</u></u>

The accompanying notes are an integral part of these financial statements.

CHELSEA RECREATION COUNCIL

NOTES TO FINANCIAL STATEMENTS

August 31, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Chelsea Recreation Council, a recreation board, was established by the Village of Chelsea in 1971 under the provisions of public act 156 of 1917, as amended, to provide for the operation of a system of public recreation and playgrounds in cooperation with the Chelsea School District.

The accounting policies of the Chelsea Recreation Council conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Council. There are no component units. The Recreation Council is not a component of any other reporting entity.

Basis of Presentation – Fund Accounting:

The accounts of the Council are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Currently the council has only one business-type fund for its recreation program activities.

Basis of Accounting:

GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government. These type of statements usually distinguish between activities that are governmental and those that are business-type activities. The Council currently has only one business-type fund/activity.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Council's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The Council first utilizes restricted resources to finance qualifying activities. The Council currently has no restricted net assets.

The statement of activities reports both the gross and net cost of each of the Council's functions. The functions are also supported by general government revenues (certain intergovernmental revenues, if any, and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (interest income, etc.). The Council does not allocate indirect costs.

CHELSEA RECREATION COUNCIL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2008

The government-wide focus is on the sustainability of the Council as an entity and the change in the Council's net assets resulting from current year activities.

Program fees, grants, and other revenue, if any, associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The Council reports its only fund as a major business-type fund as follows:

Recreation Fund – The Recreation Fund is used to account for the revenues and expenses for the operation of the recreation program.

Assets, Liabilities and Equity:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments, if any, with a maturity of three months or less when acquired. Investments are stated at fair value.

Inventories and Prepaid Items – Inventory consists of supplies (bats, balls, helmets, etc.) and athletic equipment (nets, backboards, etc.) which are used and re-used in program activities. The Council reports its inventory at the lower of cost or fair value. The fair value of the inventory, which is lower than original cost, is estimated at 25% of its current replacement cost. Certain payments to vendors reflect costs applicable to future fiscal years and may be recorded as prepaid items in the financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets, if any, are recorded at their estimated fair market value at the date of donation. The Council defines capital assets as assets with an initial individual cost in excess of \$250. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Office equipment is depreciated using the straight-line method over the following useful lives:

Furniture and other equipment	5-10 years
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Compensated Absences – Employees are not allowed to accumulate vacation and sick pay and therefore, no accumulated amount has been reported in accordance with Governmental Accounting Standards Board's Statement No. 16 "Accounting for Compensated Absences."

Long-term Obligations – In the government-wide financial statements long-term debt and other long-term obligations, if any, are reported as liabilities in the applicable business-type activities statement of net assets. Currently the Council has no long-term obligations.

Deferred Revenue – The government-wide full accrual financial statements may report deferred revenue in connection with revenue that has not been earned since it related to advance collection of program fees for programs which will be provided subsequent to the end of the current fiscal year. Also, grant monies received, if any, that have not been expended are reported as deferred revenue.

CHELSEA RECREATION COUNCIL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2008

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Council's cash is comprised of bank deposits that are reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$80,989. The entire amount was covered by federal depository insurance.

The Recreation Council's deposits are in accordance with statutory authority. The organization does not have any investments.

NOTE 3: CAPITAL ASSETS

Capital assets activity of the Council's business-type activity was as follows:

	Balance Sept. 1, 2007	Additions	Disposals and Adjustments	Balance Aug. 31, 2008
<i>Business-type activities:</i>				
Recreation capital assets:				
Capital assets being depreciated				
Office furniture and equipment	\$ 8,805	\$ -	\$ -	\$ 8,805
Subtotal	8,805	-	-	8,805
Accumulated depreciation	(6,653)	(761)	-	(7,414)
Net recreation capital assets	2,152	(761)	-	1,391
Net business-type capital assets	\$ 2,152	\$ (761)	\$ -	\$ 1,391

Depreciation expense was charged to programs of the primary government as follows:

<i>Business-type activities:</i>	
Recreation	\$ 761
Total business-type activities	<u>\$ 761</u>

CHELSEA RECREATION COUNCIL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2008

NOTE 4: RISK MANAGEMENT

The Council is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Council manages its liability and property risk by participating in Michigan Municipal Risk Management Authority, a public entity risk pool providing property and liability coverage to its participating members. The Council pays an annual premium to Michigan Municipal Risk Management Authority for its insurance coverage. The Michigan Municipal Risk Management Authority is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Council manages its workers' compensation insurance by participating in Michigan Municipal League, a public entity risk pool providing workers' compensation coverage to its participating members. The Council pays an annual premium to Michigan Municipal League for its insurance coverage. The Michigan Municipal League is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based coverage for each incident to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 5: POST EMPLOYMENT BENEFITS

The Council does not currently provide any post employment benefits.

SUPPLEMENTAL FINANCIAL INFORMATION

CHELSEA RECREATION COUNCIL

DETAILED STATEMENT OF PROGRAM EXPENSES

For the Year Ended August 31, 2008

DIRECT RECREATION PROGRAM EXPENSES:

Advertising	\$ 2,402
Awards	4,186
Supplies and equipment inventory expense	2,122
Clinic camp payouts	699
Clinic instructors and coaches	8,551
Field maintenance	3,391
HS Helpers	452
Lifeguards	5,008
Mouth guards	305
Officials	14,040
Other	33,442
Payroll	43,440
Portable lavatory	1,093
Refunds	8,773
Set-up costs	300
Site supervisors	1,300
Supplies	8,528
T-shirts/uniforms/caps	22,931
Tournament fees	6,267
Tournament set-up	3,169
Trips	1,695
Total direct program expenses	<u>172,094</u>

INDIRECT AND ADMINISTRATIVE PROGRAM EXPENSES:

Advertising	6,546
Audit and accounting	2,850
Bank, credit card, and paypal charges	4,956
Dues and fees	815
Depreciation	761
Insurance -- liability & WC	4,310
Maintenance and repairs	62
Office supplies and other expense	1,969
Other administrative expense	322
Postage	593
Professional development	1,634
Rent – copy machine	1,296
Rent – office	3,250
Rent – storage	1,100
Salaries and wages	87,932
Taxes – payroll	10,122
Telephone	2,268
Web site	411
Total indirect and administrative expense	<u>131,197</u>
Total recreation program expense	<u>\$ 303,291</u>



REQUIRED COMMUNICATION TO THE CHELSEA RECREATION COUNCIL IN ACCORDANCE WITH PROFESSIONAL STANDARDS

To the Chelsea Recreation Council
Chelsea, Michigan

We have audited the financial statements of the business-type activities of the Chelsea Recreation Council for the year ended August 31, 2008, and have issued our report thereon dated November 18, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, dated October 10, 2006, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Chelsea Recreation Council are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

Disclosures

The disclosures in the financial statements appear to be neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, if any.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested and obtained certain representations from management that are included in the management representation letter dated November 18, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management, each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Internal Control Matters

In planning and performing our audit of the financial statements of the Chelsea Recreation Council as of and for the year ended August 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Chelsea Recreation Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined above.

Deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above, follow:

Recording, Processing and Summarizing Accounting Data

Criteria: All governmental units are required to have in place internal controls over recording, processing, summarizing accounting data and preparing financial statements. SAS No. 112 requires us to communicate with you about this.

Conditions: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the recording, processing, summarizing accounting data and preparing financial statements as part of its external financial reporting process. Accordingly, the government has placed reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause: This condition was caused by the government's decision that it is more cost effective to have external auditors recommend the necessary adjusting journal entries to its general ledger and prepare the financial statements than to incur the time and expense for the government to perform these tasks internally.

Effect: As a result of this condition, the government lacks internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and instead relied, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The government has evaluated the cost versus benefit of establishing internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and determined that it is in the best interests of the government to rely on its external auditors to recommend the necessary adjustments and preparation of the financial statements.

Other Audit Findings or Issues

Disbursements

All disbursements / checks written must be fully supported by documentation such as an invoice or properly approved check request. During our work, we noted that most of the disbursements we selected for review were properly supported and documented, however, we did note some payments such as petty cash, credit card payments and expense advances where documentation improvements are needed. In this connection, we recommend:

- All vendor invoices and check requests be initialed or signed by Michelle to signify approval of the amount and amount classification.
- Petty cash checks be fully supported by appropriate documentation that adds up to the amount of the reimbursement check.
- Credit card statements and related supporting documents be initialed as reviewed and approved by Michelle.
- Checks never be made out to CASH. If an advance is being given, then the check should be made payable to the responsible person. Advances, like other

disbursements, need to be followed-up on to fully account for the expense incurred and amounts returned unspent.

Tournaments and Other Events

For various special events and activities that involve admission fees, ticket sales, registration fees and concession sales and the like, there must be some established and written internal control procedures implemented and followed so that the completeness of receipts is fully documented and accounted for.

We observed that, for the wrestling tournament held last year, there were no written internal control procedures such as dual control and sign-off by volunteers or workers who handled and turned in cash receipts. We noted that receipts for admissions, concessions and others were posted in the general ledger as one lump sum. We recommend that written internal control, recording and reporting procedures for such future events be prepared and implemented.

Sales Tax

The Organization is a local unit of government and, as such, is generally not required to pay sales tax on materials, equipment and supplies used in its program activities. (There may, however, be some instances that require sales tax be paid.) During our review, we noted some payments that included sales tax. (Dunham's, Cliff-Keen, Ascott)

We recommend that future disbursements be reviewed to not include sales taxes when it is not required.

Health Insurance Program

Payments of payroll benefits to, or for, an employee should be made in accordance with established approved plan documents and IRS requirements. During our audit, we noted that the Organization has made medical health insurance and reimbursement payments to / for one employee. To our knowledge, the Organization has no written Section 125 or Medical Reimbursement Plan prepared as required by IRS rules. In absence of such a plan, such payments to, or for, an employee may be considered fully taxable W-2 wages for him. We recommend that the Organization obtain and establish the necessary plan documentation in accordance with IRS requirements.

This communication is intended solely for the information and use of management, Council, and others within the Organization, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants

Saginaw, Michigan
November 18, 2008